

**LEMON GROVE CITY COUNCIL  
AGENDA ITEM SUMMARY**

**Item No.** 4  
**Mtg. Date** March 17, 2015  
**Dept.** Public Works

**Item Title:** Risk Management Program Update

**Staff Contact:** Mike James, Public Works Director

**Recommendation:**

Receive an update regarding the City's risk management program.

**Item Summary:**

On February 17, 2015, the City Council ratified a notice of intent to withdrawal from the San Diego Pooled Insurance Program Authority (SANDPIPA). The purpose of the letter was to preserve the City's right to leave the organization. Staff also informed the City Council that it would return with an update of issues relating to the dissolution of SANDPIPA. The staff report (**Attachment A**) provided background information about SANDPIPA and an update of recent SANDPIPA Board activities.

**Fiscal Impact:**

None.

**Environmental Review:**

- |  |  |
|--|--|
| <input checked="" type="checkbox"/> Not subject to review<br><input type="checkbox"/> Categorical Exemption, Section [       ] | <input type="checkbox"/> Negative Declaration<br><input type="checkbox"/> Mitigated Negative Declaration |
|--|--|

**Public Information:**

- |  |   |   |
|--|---|---|
| <input checked="" type="checkbox"/> None                     | <input type="checkbox"/> Newsletter article   | <input type="checkbox"/> Notice to property owners within 300 ft. |
| <input type="checkbox"/> Notice published in local newspaper | <input type="checkbox"/> Neighborhood meeting |   |

**Attachments:**

A. Staff Report



## LEMON GROVE CITY COUNCIL STAFF REPORT

Item No. 4

Mtg. Date March 17, 2015

Item Title: Risk Management Program Update

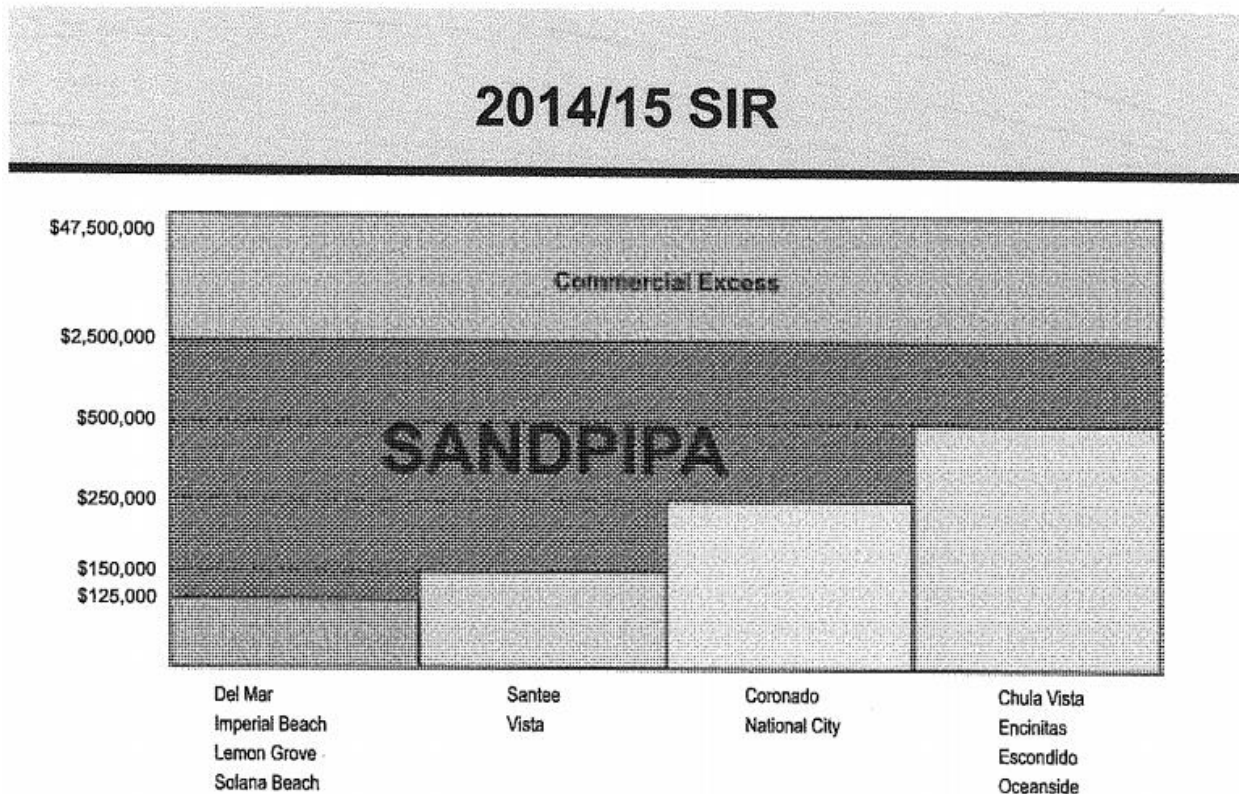
Staff Contact: Mike James, Public Works Director

### Background:

The City of Lemon Grove has been a member of the San Diego Pooled Insurance Program Authority (SANDPIPA) since 1986. SANDPIPA was established to enable its current 12 member cities to secure excess liability and property insurance coverage at economical rates.

The City's coverage against tort liability claims consists of three layers. The first layer is the City's self-insured retention (SIR), which is currently set at \$125,000. The second layer is coverage provided by SANDPIPA, which is currently set at \$2.5 million. The third layer is an additional \$45 million in excess of insurance coverage, for a total of \$47.5 million of excess liability coverage. Below, in Figure 1, is an illustration showing the three layers of coverage among all 12 members.

*Figure 1: SANDPIPA Layers of Liability Insurance Coverage*



The cost for funding the pooled and excess layer is determined by a liability rating model which equitably distributes the cost, also known as a member contribution, among the SANDPIPA

# Attachment A

members. The payroll of each members and its size as percentage of SANDPIPA is shown in Table 1.

Table 1: SANDPIPA Member Summary

<b>City</b>	<b>FY 13/14 Payroll</b>	<b>Size as % of Payroll</b>
Chula Vista	\$83,398,665	25%
Coronado	\$18,110,632	6%
Del Mar	\$5,105,791	2%
Encinitas	\$19,893,816	6%
Escondido	\$61,626,693	19%
Imperial Beach	\$4,922,676	2%
Lemon Grove	\$4,004,305	1%
National City	\$21,555,036	6%
Oceanside	\$73,572,798	22%
Santee	\$9,621,342	3%
Solana Beach	\$5,469,106	2%
Vista	\$19,923,422	6%
<b>TOTAL</b>	<b>\$327,204,282</b>	<b>100%</b>

SANDPIPA is a small organization, only having one full-time employee, a General Manager. But, because SANDPIPA is small, SANDPIPA's corporate knowledge is confined primarily to the General Manager. In 2015, the General Manager announced that she will retire in 2016. With the pending retirement of the General Manager, SANDPIPA began to explore strategic business plan options for the future.

Additionally, some member agencies also initiated research to explore alternatives and test the market. Recently, 9 out of the 12 member agencies submitted notices of intent to withdrawal. Lemon Grove was one of the member agencies. Should all of these members withdraw from SANDPIPA it would no longer be a viable excess insurance provider. Pursuant to the joint powers authority (JPA) agreement, if three-fourths of the cities withdraw, the JPA agreement would be terminated and the JPA would continue to exist for the sole purpose of disposing of all claims, distribution of assets, and all other functions necessary to close out the affairs of the JPA (also known as a "run-off" period).

It is important to note that if a few of the larger members (e.g. Chula Vista, Escondido and Oceanside) leave SANDPIPA, the costs may increase Lemon Grove's annual premium and decrease the stability of SANDPIPA to the remaining members to no longer make SANDPIPA an affordable risk management option.

# Attachment A

There are several municipal joint powers insurance programs that operate in Southern California, including San Diego County. These include the Public Entity Risk Management Authority (PERMA) which La Mesa is a current member, CSAC-Excess Insurance Authority (CSAC-EIA) which El Cajon is a member, and the California Joint Powers Insurance Authority (CALJPIA) which Poway and San Marcos are both members.

It is important to note that Chula Vista, the first member that submitted a notice of intent to withdraw from SANDPIPA, obtained a preliminary quote or “indication” from CSAC-EIA. Subsequently, the insurance broker for SANDPIPA, worked with CSAC-EIA to conduct an analysis to provide indications for all 12 member cities. Based on the outcome, it was noted that cost savings could be achieved by a number of members if they withdrew from SANDPIPA and joined CSAC-EIA. Provided below, in Table 2, is a summary analysis of the cost analysis to the City if it opted to join CSAC-EIA.

*Table 2: CSAC-EIA Indications*

	Amount	Notes
FY 16 SANDPIPA Contribution (Base)	\$105,930	
<b>MINUS:</b> Dividend	<u>(\$37,570)</u>	Dividends <u>are not</u> guaranteed each year.
Net FY 16 Contribution	<b>\$68,360</b>	This figure is for cost comparison
<b>Two Scenarios:</b>		
1. CSAC-EIA Premium @ 100K SIR	<u>\$67,500</u>	Based on FY 14-15 data.
<b>Savings or Loss</b>	<b>\$860</b>	
2. CSAC-EIA Excess Carrier at \$1M	\$105,930	In lieu of current \$2.5M primary layer
Net FY 16 Contribution	\$68,360	attachment based on FY 14-15 data.
<b>Savings or Loss</b>	<b>\$37,570</b>	If dividend was not included, the loss would equal \$0.

If the City’s gross contribution was compared with both CSAC-EIA scenarios, the City will see a savings of \$38,430 or \$0, respectively, to its annual premium.

## Discussion:

At the February 17<sup>th</sup> City Council meeting, staff was directed to seek cost estimates to provide other risk financing options to the City. Staff has contacted the following providers to determine if each were interested in partnering with the City to provide excess liability coverage:

- California Joint Powers Insurance Authority (CALJPIA),
- CSAC-Excess Insurance Authority (CSAC-EIA),
- Keenan and Associates (KEENAN), and
- Public Entity Risk Management Authority (PERMA).

# Attachment A

In reaching out to each provider, staff asked the following questions:

- 1) Can you provide excess liability and workers compensation coverage to the City?
- 2) How much would the services cost per year?
- 3) Can you provide coverage similar to what the City has with SANDPIPA?
- 4) Could the City be accepted into the program and begin coverage by July 1<sup>st</sup>?

Staff is currently analyzing these different quotes and options received.

Since the last City Council meeting, there was one SANDPIPA Board meeting that occurred on February 24<sup>th</sup>. During that meeting, the SANDPIPA Board received a presentation from the General Manager regarding five options for the Board to consider when analyzing future options for the SANDPIPA organization. Each option is listed below with a brief description and costs specifically tailored to Lemon Grove.

- Option A – Continue SANDPIPA as currently structured. This would entail contracting with a management firm in place of the General Manger. This option may slightly increase in the City premium because of the increase in costs to contract with a third party administrator rather than continuing to be managed by a General Manager. But for comparison purposes, the values were not changed from the City's anticipated premium.

<b>SIR</b>	<b>2015/16 gross contribution</b>	<b>Declared Dividend</b>	<b>Net contribution</b>
\$125,000	\$105,930	\$37,570	\$68,360

- Option B – Continue SANDPIPA but reduce the confidence level to 65%. A confidence level is used by actuaries to determine the realistic possibility that a given funding rate will be sufficient to cover all claims that might be incurred in any one year.

<b>2015/16 Gross Contribution @ 75% CL</b>	<b>2015/16 Gross Contribution @ 65% CL</b>	<b>Net Change</b>
\$105,930	\$105,930	\$0

- Option C – Continue SANDPIPA but reduce the confidence level to 65% and release 50% of eligible funds.

<b>2015/16 Gross Contribution @ 65% CL</b>	<b>Declaring 50% Lvl Dividends</b>	<b>Net Contribution @ 65% less Declared Dividends</b>	<b>CSAC-EIA Indication @ \$100K SIR</b>
\$105,930	\$75,140	\$30,790	\$67,500

## Attachment A

- Option D – Continue SANDPIPA but join CSAC-EIA at a \$1,000,000 attachment level.

<b>2015/16 Gross Contribution @ 65% CL</b>	<b>Declared Dividends</b>	<b>Net Contribution @ 65% less Declared Dividends</b>	<b>CSAC-EIA as Excess Carrier @ \$1,000,000 SIR</b>
\$105,930	\$37,570	\$68,360	\$105,930

- Option E – Dissolve SANDPIPA and join CSAC-EIA as a group purchase for the first transitional year.

<b>2015/16 Gross Contribution @ 65% CL (w/out dividend)</b>	<b>CSAC-EIA Indications @\$100,000 SIR</b>
\$105,930	\$67,500

At this time, the SANDPIPA Board is reviewing these options in greater detail. Staff may withdraw the notice of intent to withdrawal if it is determined that the SANDPIPA Board needs additional time to analyze options. Staff will keep the City Council updated as needed regarding any significant developments. In the interim, staff will continue to seek quotes from other providers. |

### **Conclusion:**

Staff does not have any recommendations but will keep the City Council updated with any significant developments.